

Blockades – Recent Developments and Summary of Economic Disruptions

Key Points

- **Context:** “Freedom Convoy” protesters have set up three major border blockades: one in Coutts, Alberta, which started at the end of January, a critical one in Windsor at the Ambassador Bridge, Ontario, which started on February 7th, and one in Emerson, Manitoba, which started on February 10th. As of February 16th, all three blockades have **ended** and borders **reopened**. On the eve of February 13th, the Windsor border was reopened after six days. The Coutts border fully reopened on February 15th after 18 days of blockades and protests. The Emerson border reopened on the 16th after six days of blockades.
- **Economic Impacts:** About \$390 million in goods crosses the Bridge each day or about 30% of all road trade between Canada and the U.S. The Bridge is a vital corridor for the auto industries in both countries – about a quarter of the traded goods that flow via the Ambassador Bridge are related to the auto sector. The partial blockade in Coutts had delayed \$48 million in goods that crosses each day, while the blockade in Emerson had delayed about \$73 million in trading goods daily. The blockade of the critical Ambassador Bridge has caused a major disruption in trade, forcing shutdowns at auto plants and potentially had knock-on effects on the broader economy and consumer prices. Automakers have had a week of severe disruptions, with Ford reducing capacity to 50% of usual activity at its Oakville assembly plant and shutting down engine plants around Windsor, while Stellantis cut numerous shifts at its Windsor and Brampton plants. Operations at Toyota and Honda, have been also impacted, with the former idling the Cambridge plant for at least a week and the latter suspending a production line at its Alliston plant. For each of these, there are a set of suppliers that are also affected. After a week of production cuts, automakers Stellantis and Toyota were able to resume normal operations, with the former adding Saturday production over the next two weeks. Ford’s engine assembly plant in Windsor remains on half-production for the next two weeks, while it remains unclear as of February 22 whether operations are back to normal at the Honda plant. Though the Bridge has reopened, it will likely take time to return to the pre-disruption pace of trade and production. In addition, the fallout could be even greater if producers choose to source their supply chains elsewhere in the longer term, for fear of these disruptions re-occurring.
- **Implications for Real GDP:** The blockades – delaying about \$511 million per day in traded goods and increasing shipping costs – occurred at a time when supply chains were already under significant stress from the pandemic, and were highly disruptive to Canada-U.S. trade flows. A major impact of the blockades on real GDP has been the loss of production of autos and parts, with an estimated 10% decline in February auto production alone. With businesses already suffering parts shortages, it could take weeks, if not months, to recoup the lost production. With the current information up to February 18, we estimate that the border blockades could knock about 0.1 to 0.2 percentage point off real GDP growth in 2022Q1, with a similar rebound expected in 2022Q2. The ultimate impact will, among other things, depend on ability of affected businesses to increase production beyond normal levels to catch up on lost output in the coming weeks. Blockades at major border crossings may also have indirect effects on sectors with linkages to affected businesses (e.g. customers or suppliers) as inventories get depleted, as well as broader macro-economic effects driven by job losses, reduced incomes, and higher costs for businesses and consumers.

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- While these reopenings have come off a de-escalation among officials and protestors, the situation is fluid and could quickly deteriorate. The disruptions to economic activity can be expected to quickly escalate if the blockades re-emerge—especially prolonged/widespread blockades affecting additional nearby crossings (and potentially other critical infrastructure) — as it would limit the ability to reroute traffic and clog supply chains, forcing manufacturers to curtail production and creating shortages for some types of goods. Moreover, there are potential business confidence and reputational impacts that could impede Canada’s efforts to establish and grow a vibrant electric vehicle industry over the long-run. With blockades and trade disruptions, media reports have indicated U.S. lawmakers using the situation to argue for more Buy American-style policies and for less reliance on buying goods from Canada.

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Background

- **Issue:** Following the protests that began two weeks ago in Ottawa over vaccine mandates for truckers, “Freedom Convoy” protesters had set up three major border blockades: one in Coutts, Alberta, which started on January 29, a critical one in Windsor at the Ambassador Bridge, Ontario, which started on February 7th, and one in Emerson, Manitoba, which started on February 10th. Demonstrators also attempted to block a highway to another crossing, the Blue Water Bridge, two hours north of the Ambassador Bridge. Meanwhile, the Department of Homeland Security had warned that U.S. truckers were potentially planning to block roads in major U.S. metropolitan areas in protest of vaccine mandates.
 - The **Ambassador Bridge** was closed for six consecutive days and is the busiest land crossing on the U.S.-Canada border and a vital corridor for the auto industries on both sides. It is estimated that about \$390 million in goods crosses the Bridge each day, or about 30% of all road trade between the two countries. About a quarter of the goods that flow via the Ambassador Bridge are related to the auto sector.
 - The closest border crossing that shippers can use as an alternative route is the **Blue Water Bridge, Sarnia**. With the Blue Water Bridge reporting about 1-3 hours of delay over the last few days, this has led to longer trips for commercial travel over the last few days.
 - In **Coutts**, where about \$48 million in goods crosses each day, the border has mainly been open, as protesters have mostly allowed one lane traffic in each direction, limiting the impacts. However, the border was completely shut from Feb 12-15, three consecutive days, with commercial traffic diverted elsewhere. The current delay for commercial vehicles to cross the border into the U.S. is about 10 minutes as of noon February 18th.
 - In **Emerson**, where about \$73 million in goods crosses each day, protesters have blocked the highway in both directions from February 10 over six days, only allowing livestock and medical vehicles through.
- **Economic Impacts:** These blockades occurred at a time when supply chains were already under significant stress from the pandemic, and were highly disruptive to Canada-U.S. trade flows. Currently, the impacts are mostly felt in industries most dependent on Canada-U.S. trade (e.g., automakers and other manufacturers). In the near-term, most manufacturers likely continued producing as they found alternative shipping routes and/or through inventory management (in anticipation of a resolution of the blockades). Still, the macro-economic impacts could quickly rise depending on how long the protests last and whether they spread further, with production eventually forced to slow. Media reports already indicated that production at some auto plants had been stalled for at least a week.
 - **Border closures:** The ongoing blockades at border crossings have significantly disrupted cross-border commercial flows. While some traffic can divert to other crossings (e.g., Sarnia), the blockades are resulting in congestion, delays of shipments, and higher transportation costs. While delayed shipments are affecting production in certain sectors, most businesses should continue to operate at close-to-normal levels by adjusting work shifts or relying on/building up inventories while they await shipments. Further, temporarily reduced production is likely to be

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made-up in the coming days and weeks once the shipments arrive. However, the impacts could grow substantially if the disruptions persist and/or spread.

- Of note, automakers have had a week of disruption, with Ford reducing capacity to 50% of usual activity at its Oakville assembly plant and shutting down engine plants around Windsor, while Stellantis cut numerous shifts at its Windsor and Brampton plants earlier this week. Operations at Toyota have been also impacted, with the automaker idling the Cambridge plant for at least a week, though the company signaled it did not expect employment impacts. The Automotive Parts Manufacturers' Association noted that other plants could feel impacts over the next few days, due to the industry's reliance on just-in-time inventory management, which means that plants typically only hold the equivalent of 1–2 days of inventory in parts.
- As of February 18, Stellantis and Toyota have resumed normal operations, with the former adding Saturday production over the next two weeks. Ford's engine assembly plant in Windsor remains on half-production for at least two weeks. With the already severe supply chain shortages, these losses could linger over the following months. The fallout could worsen if producers choose to source their supplies elsewhere over the longer term.
- **Occupations of downtown cores:** The occupations in certain cities (notably downtown Ottawa) is having sizable, important economic and social impacts on local residents and businesses. While the protests have entered its 20th day, it is unlikely to have a significant impact on the wider economy given the relatively small size of the impacted areas and likely diversion of activity to other parts of the cities.
- **Implications for Monitoring:** Up to now, the blockades had cut one week of auto production (about 10% of expected auto output for February), delayed trade activities of goods (valued at around \$511 million per day), and increased shipping costs. Given that the blockades have ended, most losses could potentially be recouped, leaving little impact on economic activity in 2022. However, a meaningful re-emergence of the crisis in the coming days and weeks could change our assessment. Importantly, an extension in the blockades could increase the economic impacts, particularly if there were further blockades at nearby border points where commercial traffic could be rerouted. The most immediate risk was the potential for extended closures affecting additional border points (e.g., Sarnia, Windsor and Niagara Falls), which could have limited the ability to reroute commercial traffic (**Table 1**). Many manufacturers would have to lower production and may not be able to recoup the hit to activity rapidly. At a time when supply chains are already strained, this may further translate in shortages for some types of goods and add to already-significant inflationary pressures.
- With the current information up to February 18, we estimate that the border closures knocked about 0.1 to 0.2 percentage point off real GDP growth in 2022Q1, with a similar rebound expected in 2022Q2 (**Table 2**). These impacts build off Transport Canada's estimates of the daily economic cost of the Ambassador Bridge closure, which pegged the cost of a full shutdown at \$45M/day over the first week based on current mitigation efforts put in place by shippers and available alternative options. However, Transport Canada estimated that the impact could have reached as much as \$86M/day to \$161M/day (extreme case) in the event

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where other crossings had become unavailable (limiting the scope for re-routing) and the situation dragged on in length.

- **Upcoming Data Releases:** With respect to upcoming data releases, the blockades may translate in weaker manufacturing sales and international merchandise trade in February, but higher activity in March could offset some of the losses. There could be a small impact on manufacturing employment and hours worked in the February LFS (reference week of February 13–19). Despite this, we still expect to see a solid rebound in both real GDP and employment in February driven by the ongoing easing of Omicron-related restrictions and absenteeism.
- **Next Steps:** The situation is evolving and we will monitor it closely. We will also continue to engage with Transportation Canada and other departments to better understand the situation, identify at-risk transportation infrastructure and potential implications, including the impacts of cross-border trade flows and the potential disruption to affected businesses (e.g., automakers).

Table 1. Modal Exports as a Share of Total Merchandise Exports and GDP, 2018

	Road	Rail	Marines	Air	Pipeline and other modes	Total
Per cent of total merchandise exports	39	15	19	12	15	100
Per cent of GDP	10	4	5	3	4	26

Table 2. Economic impact of border blockades

Value of goods per day prevented of free flow	Estimated economic cost per day	Impact on 2022Q1 real GDP growth (annual rate)
\$511M per day <u>at the peak</u>	Between \$28M and \$56M per day <u>at the peak</u>	Between 0.1 and 0.2 p.p.

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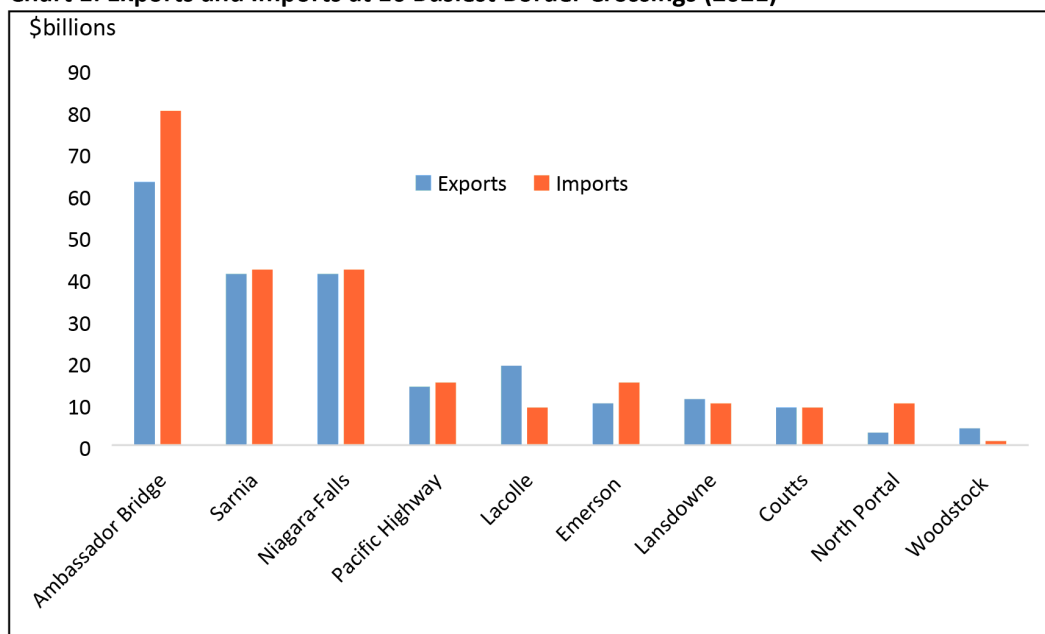
Annex: Commercial Flows at Border Crossings

The Ambassador Bridge accounted for 26% of our road exports in 2021 (\$63 billion) and 33% of road imports (\$80 billion). Trade flows passing via the bridge are roughly twice that of the second busiest commercial crossing in Sarnia in normal times (**Chart 1**). Moreover, about 2.7 million vehicles cross the bridge annually. Its importance for commercial flows owes primarily to its proximity to many of the major auto assembly plants in Southern Ontario.

About half of the goods that flow via the Ambassador Bridge are automotive, machinery and equipment, and electronics (**Table 1 and 2**). Food and pharmaceutical goods are also imported via the bridge (respectively \$4 billion and \$1.4 billion annually), but it is not the most critical artery for those types of goods.

Alternative routes can be used to move goods across the border, including rail. As a result, even a prolonged blockade would not bring the flow of all goods to a complete halt, but may cause delays and temporary shortages.

Chart 1: Exports and Imports at 10 Busiest Border Crossings (2021)



Source: Transport Canada

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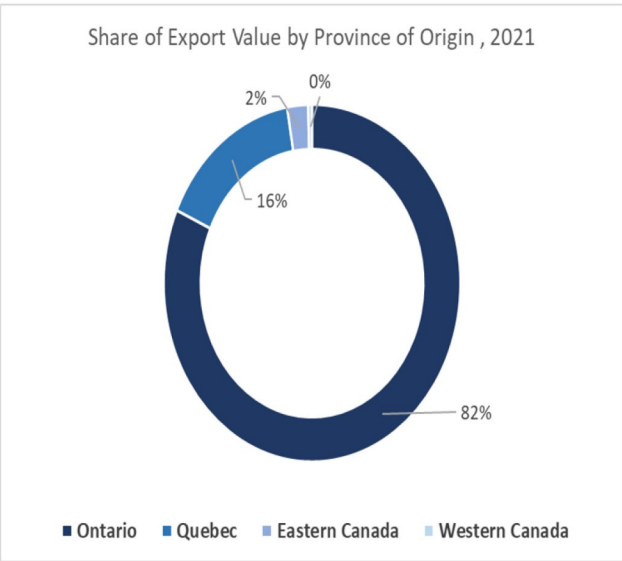
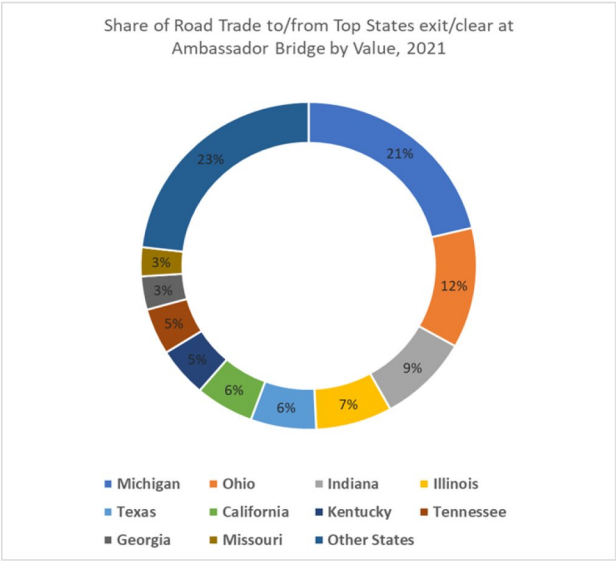
Table 1: Import Flows at the Ambassador Bridge

HS2 Commodity Type	2019		2020			2021		
	\$ value (B)	% share	\$ value	% share	y/y change	\$ value	% share	y/y change
Automotive	\$23.50	27.20%	\$17.70	23.10%	-24.70%	\$17.40	21.70%	-1.70%
Machinery	\$15.40	17.80%	\$13.50	17.60%	-11.90%	\$13.60	17.00%	0.70%
Electronics	\$9.20	10.60%	\$7.60	10.00%	-16.70%	\$7.40	9.30%	-3.00%
Pharmaceutical products	\$1.80	2.00%	\$1.90	2.50%	10.30%	\$4.00	5.00%	106.20%
Plastics	\$3.40	3.90%	\$3.40	4.40%	-0.60%	\$3.70	4.60%	8.90%
Medical or surgical equipment	\$2.40	2.80%	\$2.20	2.80%	-8.70%	\$2.40	2.90%	8.80%
Furniture	\$2.50	2.90%	\$2.20	2.90%	-11.50%	\$2.20	2.70%	-3.20%
Iron and Steel	\$2.10	2.40%	\$1.70	2.20%	-20.80%	\$2.10	2.60%	25.00%
Articles of iron or steel	\$2.00	2.30%	\$1.80	2.40%	-7.60%	\$2.10	2.60%	13.10%
Prepared food	\$1.30	1.50%	\$1.50	2.00%	16.30%	\$1.40	1.80%	-5.40%
All other commodities	\$22.90	26.50%	\$23.20	30.20%	1.00%	\$23.90	29.80%	3.20%
Total	\$86.40	100.00%	\$76.80	100.00%	-11.20%	\$80.10	100.00%	4.30%

Table 2: Export Flows at the Ambassador Bridge

HS2 Commodity Type	2019		2020			2021		
	\$ value (B)	% share	\$ value	% share	y/y change	\$ value	% share	y/y change
Automotive	\$18.10	27.70%	\$14.30	23.80%	-21.20%	\$13.30	21.10%	-6.50%
Machinery	\$10.40	15.90%	\$8.70	14.40%	-17.00%	\$8.50	13.50%	-1.20%
Plastics	\$2.90	4.50%	\$3.10	5.10%	4.20%	\$3.40	5.40%	11.50%
Electronics	\$2.80	4.30%	\$2.70	4.40%	-6.30%	\$2.90	4.60%	10.20%
Pharmaceutical products	\$2.40	3.60%	\$2.30	3.90%	-2.00%	\$2.40	3.70%	1.10%
Iron and steel	\$1.60	2.40%	\$1.50	2.40%	-5.50%	\$2.30	3.70%	58.30%
Prepared foods	\$1.80	2.80%	\$2.10	3.50%	12.70%	\$2.20	3.50%	6.40%
Furniture	\$2.30	3.50%	\$2.00	3.30%	-13.50%	\$2.00	3.10%	0.30%
Articles of iron or steel	\$1.50	2.30%	\$1.40	2.40%	-3.70%	\$2.00	3.10%	39.70%
Aluminum and articles thereof	\$1.20	1.90%	\$1.40	2.30%	12.10%	\$1.70	2.80%	28.20%
All other commodities	\$20.40	31.20%	\$20.70	34.50%	1.30%	\$22.40	35.40%	8.20%
Total	\$65.50	100.00%	\$59.90	100.00%	-8.40%	\$63.20	100.00%	5.40%

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